



**Minister of State for National Development Planning /
Chairman of National Development Planning Agency**

AID EFFECTIVENESS *)

by

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The CGI working group on aid effectiveness has not formally met in recent months. But there have been active discussions between the international community and the Government on a large number of issues and the stage is set to resume a dialogue that had started well and promises much. Improving aid effectiveness is a necessary condition for meeting Government targets to improve the impact of public sector spending in general, and specifically in reducing poverty and accelerating economic growth.

The strong stance of the Government for reducing opportunities to practice corruption, also mandates that improvements are made in the effectiveness of foreign assistance. As the working group on aid effectivenessn has noted: "Indonesia's more democratic society is now demanding a focus on performance, outcomes, transparency, accountability, and attention to cost effectiveness in the use of aid." Improving foreign assistance in this area would support broader

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Government steps, such as the establishment of the Corruption Eradication Commission.

Improving assistance starts with a clear policy on how foreign funding should be used. Above all, it should be aligned with Government development priorities. A common strategy for assistance is important, to ensure that foreign funded programs are complementary and supportive to the Government's efforts. To specify the overall objectives, the new Medium-Term Development Plan, for 2004-2009, focuses on:

- Creating a safe and peaceful Indonesia.
- Developing justice and a democratic environment.
- Enhancing people's welfare and prosperity.

This framework provides a structure for external funding agencies to set their work programs, priorities, and resources. A close alignment of the international community's support for Indonesia within this framework is an important step towards ensuring more effective assistance. One element will be to design programs, within the medium-term plan, that meet the priorities of the Government. Hard decisions have to be made in common about where to place scarce resources, what programs to adopt, and what geographic locations to serve. With respect to this, the Government will utilize foreign assistance primarily to:

- Generate job opportunities and ensure that labor market demand is sufficient to provide rising real wages.
- Increase economic growth, encouraging especially private sector investment.

- Alleviate poverty and enhance the quality of human resources - especially through education and health services to reduce the human burden of poverty and to empower individuals to rise out of poverty.

Specifically, the Government expects to utilize foreign financing to support investment in (i) infrastructure, (ii) economic development, and (iii) human resource development. These areas have been traditional focal points for foreign assistance, but looking forward, there must be a sharper focus to ensure that projects and programs meet the needs of the country. The just completed Infrastructure Summit has provided a good opportunity to reinforce the Government's policies in this area. The Government made clear that there is a prioritization of projects, and that there is also a prioritization of financing options. While much of the expected investment needs to come from domestic sources, both private and public, a large share of needed financing may also come from abroad—in some cases from official development assistance. The same is true for activities in encouraging general economic development and in building human resources. Providing support for SMEs, local infrastructure, education, and health services will take a combined, coordinated financing effort, involving both domestic and foreign sources.

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The foreign loans will be contained in a budget financing framework, entirely and broadly, in the mid-term fiscal policy. Some directions in the main policies consist of:

1. Government 's debt stock is projected to be decreased to 31,8 percent of GDP in 2009; and
2. Foreign debt stock is to decrease by USD 1-2 billion per year.

Implementation issues are as important as overall strategy for accessing and utilizing foreign financing. Here a large number of issues have been identified that must be addressed to be comfortable that assistance will become visibly and reliably effective. It must be emphasized that these do not necessarily refer to actions that are the sole responsibility of the Government -- a number of these must be seen as demanding new relationships between the international community and the Government, in dialogue and in action. These issues are as follows:

1. Improving quality of project preparation. One of the most commonly identified problems, that have reduced efficiency in project implementation, is the lack of 'quality at entry' - design problems in the project that go undetected or uncorrected at the start of the project. A lack of local or agency ownership in consultant designed or driven projects, incomplete land acquisition, complicated or unclear reporting procedures, or a lack of coordination in decision-making, all will result in limiting project effectiveness. Inadequate preparation often cannot be fully redressed during implementation. The Government, working with the ADB, JBIC, and World Bank have identified a list of criteria that should be met at the project start. These project

and make them consistent especially with changes in the decentralization process.

2. There must be a more open and honest debate on the policy issues that are part of foreign assistance programs. In particular, there should be a better estimation of the willingness and ability to undertake reforms. Programs of assistance in the past have often overestimated the ability of the Government to initiate and implement change in key areas. Policy issues must also be reviewed more consistently by Indonesian experts, to ensure actions have both relevance and impact within an Indonesian context.
3. Attempts to learn from stakeholders in a participatory fashion sometimes provide confusing signals to NGOs on how important their input is, on what follow-up mechanisms there are, and on what their role is vis-à-vis the Government. This must be dealt with in a more honest dialogue with NGOs. Finding a better role for NGOs will allow the Government and the international community to do their jobs better.
4. Coordination problems have been evident among external funding agencies, among government agencies, and between the external funding and government agencies. This saps assistance programs of much of the human resources needed to plan and implement projects. Harmonization of activities, especially at the local level will be important, necessitating an improvement in forward planning and coordination.
5. Maintaining common standards such as 'zero tolerance towards corruption in projects' or a strong commitment to poverty

reduction in government policy, has been difficult. If the Government takes the initiative more to enhance the setting up and maintenance of the appropriate standards, it will be easier for the international community to keep to a common stance.

6. Given the revolution in the decentralization process of Indonesia, there must be a more aggressive resolution to the problems for providing foreign assistance to the local level, to support development investment. As the responsibility for such important areas such as health, education, and small infrastructure are with the local governments, methods must be found to channel external funds in a manner that encourages good governance and that is more oriented to poverty reduction. On-lending arrangements has already reviewed and in the process of revision - in particular Ministry of Finance Decree No. 35/KMK.07/2003 must be further assessed to allow for more clarity in planning and processing support at the local level.
7. The recent reforms of government procurement procedures must be followed-up to continue institutional development, especially for the National Public Procurement Office (NPPO). The NPPO can be established by Presidential decree and this is expected to provide for continuity of policy discussions, review, and implementation. Another direction emerging is a focus on e-procurement: the use of the Internet to advertise, disseminate, monitor, and review procurement is an untapped area of great potential for Indonesia.
8. Sustainability of projects is often a weak point in development programs. For example, good projects lack local and institutional

support at the end of external financing, and benefits tail-off instead of continuing.

The third set of issues related to improving aid effectiveness is that of monitoring and evaluation. These are critical to ensuring that there is public support for foreign assisted development: there must be honest, transparent, understandable procedures for evaluating foreign assisted programs. Most internal studies by the international community, for example, suggest that foreign assisted programs, while not trouble free, provide benefits well in excess of the costs. Both the Government and donors must make more efforts to see that an increasingly critical public shares our understanding.

Regular meetings between the Government and the international community need to be held on monitoring and strengthening the quarterly monitoring system, especially to focus on projects that appear to be experiencing significant delays or problems. The Government intends to move aggressively, for example, to propose cancellation of projects that show less than 40% implementation after five years. This, and other guidelines to be adopted will allow better forward-looking project implementation. One way to support this is for more effective financial reporting. Harmonization of efforts in this field would yield benefits in terms of reduced costs and ultimately increased effectiveness of assistance rendered.

Last but not least, it is important to strengthen communication through continuing dialogue between the government and the international community to improve aid effectiveness.

Thank you. ■